

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE ADJUSTMENT FILING OF) CASE NO.
HARRISON COUNTY WATER ASSOCIATION) 2015-00308

ORDER

Harrison County Water Association (“Harrison County”) has applied to adjust its water service rates. By this Order, the Commission approves water service rates that will produce additional annual water sales revenues in the amount of \$223,057, a 9.14 percent increase to pro forma present rate water sales revenues in the amount of \$2,440,370. A typical residential customer’s bill will increase from \$36.58 to \$39.92 per month, an increase of \$3.34, or 9.13 percent.¹ The approved rates are shown in Appendix B to this Order.

Harrison County tendered its application (“Application”) pursuant to 807 KAR 5:076 on September 9, 2015. In its Application, Harrison County requested rates that it stated would produce \$255,707 in additional annual revenues, an 11.06 percent increase to water sales revenues from current rates in the amount of \$2,312,979. After curing filing deficiencies, the Application was considered filed on September 17, 2015.

On October 12, 2015, the Commission issued a procedural order to ensure the orderly review of Harrison County’s application. Pursuant to the Order, Commission Staff (“Staff”) issued a report on December 16, 2015, finding that Harrison County’s adjusted test-year operations for the year ended December 31, 2014, support a revenue

¹ A typical residential customer is assumed to purchase 5,000 gallons of water per month through a 5/8-inch x 3/4-inch meter.

increase in the amount of \$252,493, a 10.81 percent increase to water sales revenues from current rates in the amount of \$2,335,117. Staff also found that Harrison County should change the depreciable lives assigned to certain assets when calculating depreciation for ratemaking and accounting purposes.

On December 29, 2015, Harrison County filed responses to Staff's report wherein it accepted Staff's findings and requested that no informal conference or hearing be held; however, Harrison County requested that the Commission modify the rates calculated in the Staff's report to account for the effects of the Commission's Order in Case No. 2016-00028 ("PWA Order"), which approved a purchased water adjustment factor of \$0.25 per 1,000 gallons for services rendered on and after January 1, 2016.²

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Except where they conflict with the findings contained in this Order, the findings contained in Staff's report are supported by the evidence of record, are reasonable, and should be adopted as if fully set out herein.

2. On January 1, 2016, subsequent to the issuance of Staff's report, the city of Cynthiana ("Cynthiana") increased the wholesale water rate that it charges to Harrison County.

3. On January 5, 2016, Harrison County filed an application with the Commission pursuant to 807 KAR 5:068, Purchased Water Adjustment ("PWA") for Water Districts and Associations, requesting authority to increase its water service rates

² Case No. 2016-00028, *Purchased Water Adjustment Filing of Harrison County Water Association* (Ky. PSC Jan. 29, 2016).

in order to pass through to its customers the Cynthiana wholesale water rate increase. The Commission established Case No. 2016-00028 to review Harrison County's PWA application.

4. After reviewing the PWA application, the Commission entered the PWA Order in Case No. 2016-00028 authorizing Harrison County to increase its rates for services rendered on and after January 1, 2016, for recovering the additional cost of wholesale water.

5. Harrison County's pro forma operations, as presented in Staff's report, should be adjusted to account for the additional water service revenue that will be generated by the rates approved by the PWA Order entered in Case No. 2016-00028 in order to account for the increase to Harrison County's purchase water expense that will result from Cynthiana's wholesale rate increase.

6. As shown in Appendix A to this Order, by applying the rates authorized in the PWA Order in Case No. 2016-00028 to the billing determinants shown in the billing analysis provided by Harrison County in this proceeding,³ the Commission finds that Harrison County's pro forma present rate water sales revenues is \$2,440,370, requiring a \$105,253 increase to the pro forma amount shown in Staff's report.

7. After accounting for the January 1, 2016 increase to Cynthiana's wholesale rate, Harrison County's total pro forma purchased water expense is

³ See Harrison County's request for deviation filing (Ky. PSC Oct. 6, 2015).

\$1,271,293;⁴ however, \$79,329⁵ of this amount is attributed to the cost of water loss that exceeds the 15 percent allowed for ratemaking purposes by 807 KAR 5:066, Section 6.⁶

After removing the cost of excess water loss, Harrison County's pro forma purchased water expense that is recoverable through rates is \$1,191,964,⁷ requiring a \$75,817⁸ increase to the pro forma amount shown in Staff's report.

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Test-Year Gallons Purchased from Cynthiana	367,556,400
Times: Current Rate Per Thousand Gallons	<u>\$ 2.85</u>
Pro forma Purchase Water Expense Paid to Cynthiana	1,047,536
Plus: Test-Year Purchased Water Expense Paid to Other Providers	<u>223,757</u>
Total Pro Forma Purchased Water Expense	<u>\$ 1,271,293</u>

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Total Pro Forma Purchased Water Expense	\$ 1,271,293
Times: Percentage of Excess Water Loss	<u>6.24%</u>
Cost of Excess Water Loss	<u>\$ 79,329</u>

⁶ As discussed on page 6 of Staff's report, Harrison County's test-year water loss was 21.24 percent, or 6.24 percent above the amount allowed for ratemaking purposes.

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Total Pro Forma Purchased Water Expense	\$ 1,271,293
Less: Cost of Excess Water Loss	<u>(79,329)</u>
Recoverable Portion of Pro Forma Purchased Water Expense	<u>\$ 1,191,964</u>

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Recoverable Portion of Pro Forma Purchased Water Expense	\$ 1,191,964
Less: Amount Stated in Staff Report	<u>(1,116,147)</u>
Increase	<u>\$ 75,817</u>

8. Harrison County's pro forma operating statement, as amended to account for the additional increase to water sales revenues and purchase water expense, appears below:

	<u>Pro Forma Staff Report</u>	<u>Additional Adjustments</u>	<u>Amended Pro Forma</u>
Operating Revenues			
Water Sales	\$2,335,117	\$ 105,253	\$2,440,370
Other Operating Revenue	44,834		44,834
	<u>2,379,951</u>	<u>105,253</u>	<u>2,485,204</u>
Total Operating Revenue			
Operating Expenses			
Operation and Maintenance	2,072,077	75,817	2,147,894
Depreciation	462,973		462,973
Taxes Other Than Income	33,499		33,499
	<u>2,568,549</u>	<u>75,817</u>	<u>2,644,366</u>
Total Operating Expenses			
Net Operating Income	(188,598)	29,436	(159,162)
Interest Income	18,268		18,268
Nonutility Income	30,480		30,480
	<u>30,480</u>	<u>29,436</u>	<u>30,480</u>
Income Available to Service Debt	<u>\$ (139,850)</u>	<u>\$ 29,436</u>	<u>\$ (110,414)</u>

9. Harrison County currently has outstanding bond issuances payable to the United States Department of Agriculture Rural Development. The three-year average principal and interest payments for the years 2016 through 2018 on these bonds is \$93,869.⁹

10. The Commission has historically used a Debt Service Coverage ("DSC") method to calculate the revenue requirements of water districts with long-term debt.

⁹ Staff's report at 9.

11. As demonstrated below, application of the Commission’s DSC method to Harrison County’s pro forma operations results in an overall revenue requirement of \$2,757,009. A revenue increase of \$223,057, or 9.14 percent, from water service rates is necessary to generate the overall requirement.

Pro Forma Operating Expenses	\$ 2,644,366
Plus: Average Annual Debt Payments	93,869
Additional Working Capital	<u>18,774</u>
Overall Revenue Requirement	2,757,009
Less: Other Operating Income	(44,834)
Interest Income	(18,268)
Nonutility Income	<u>(30,480)</u>
Revenue Required from Rates	2,663,427
Less: Pro Forma Present Rate Revenue	<u>(2,440,370)</u>
Required Revenue Increase	<u>\$ 223,057</u>
Percent Increase	<u>9.14%</u>

12. The rates set forth in Appendix B of this Order will produce the required revenue increase, are fair, just, and reasonable, and should be approved for service rendered on and after the date of this Order.

13. The water service rates requested by Harrison County, after accounting for the effects of the Commission’s PWA Order, will produce additional annual revenues in the amount of \$269,900 and should be denied.

14. During the test year, Harrison County used service lives for various water assets that are at variance with those found in a survey of the National Association of Regulatory Utility Commissioners (“NARUC Survey”) that contain “a range of average service lives currently being used by water utilities throughout the country for water

facilities designed and installed and maintained in accordance with good water works practice.”¹⁰

15. The Commission has previously used the NARUC Survey to establish the service lives of water assets when there is no evidence in the record that supports alternative lives.¹¹

16. The record contains no evidence that the service lives that Harrison County uses for the assets listed in Appendix C to this Order should be at variance with the NARUC Survey.

17. Harrison County’s assignment of service lives for these asset groups is not reasonable and should be revised in all future reporting periods to conform to the NARUC Survey for ratemaking and accounting purposes.

IT IS THEREFORE ORDERED that:

1. The water service rates requested by Harrison County are denied.
2. The water service rates set forth in Appendix B to this Order are approved for services rendered by Harrison County on and after the date of this Order.
3. Within 20 days of the date of this Order, Harrison County shall file revised tariff sheets with the Commission, using the Commission’s electronic Tariff Filing System, containing the rates set forth in Appendix B to this Order.

¹⁰ National Association of Regulatory Utility Commissioners, *Depreciation Practices for Small Water Utilities* (Aug. 15, 1979) at 11.

¹¹ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21 2007); and Case No. 2012-00278, *Application of Graves County Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Sept. 5, 2012).

4. In all future reporting periods, Harrison County shall use the "PSC Approved Service Life" set forth in Appendix C to this Order for the listed asset groups when calculating and reporting depreciation for all reporting periods after the date of this Order. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in accounting estimate.

By the Commission

ENTERED
FEB 12 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
 COMMISSION IN CASE NO. 2015-00308 DATED **FEB 12 2016**

Summary of Revenue by Meter Size Using Rates Approved by PWA Order

<u>Meter Size</u>	<u>Revenue</u>	<u>(Ref.)</u>
5/8 Inch	\$2,332,991	(1)
3/4 Inch	35,889	(2)
1 Inch	42,680	(3)
1.5 Inch	3,619	(4)
2 Inch	25,146	(5)
Bulk Loading Station	46	
Pro Forma Water Sales from Rates Approved in PWA Order	<u>2,440,370</u>	
Less: Pro Forma Present Rate Water Sales from Staff Report	<u>(2,335,117)</u>	
Increase	<u>\$105,253</u>	

(1) Revenue Calculation for 5/8-Inch Meters Using Rates from PWA Order

		<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	2,000	66,424	113,293,888	\$17.31	\$ 1,149,799
Next	8,000		41,806,876	6.53	272,999
Next	20,000		52,308,861	6.37	333,207
Next	20,000		86,860,580	5.87	509,872
All Over	50,000		13,342,590	5.03	67,113
Total		<u>66,424</u>	<u>307,612,795</u>		<u>\$ 2,332,991</u>

(2) Revenue Calculation for 3/4-Inch Meters Using Rates from PWA Order

		<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	3,000	231	491,590	\$23.84	\$ 5,507
Next	2,000		254,810	6.37	1,623
Next	45,000		2,702,230	5.87	15,862
Over	50,000		2,563,980	5.03	12,897
Total		<u>231</u>	<u>6,012,610</u>		<u>\$ 35,889</u>

(3) Revenue Calculation for 1-Inch Meters Using Rates from PWA Order

		<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	5,000	461	1,881,740	\$36.58	\$ 16,863
Next	45,000		3,183,840	5.87	18,689
Over	50,000		1,416,940	5.03	7,127
Total		461	6,482,520		<u>\$ 42,680</u>

(4) Revenue Calculation for 1.5-Inch Meters Using Rates from PWA Order

		<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	10,000	36	331,630	\$65.93	\$ 2,373
Next	40,000		212,100	5.87	1,245
Over	50,000		0	5.03	0
Total		36	543,730		<u>\$ 3,619</u>

(5) Revenue Calculation for 2-Inch Meters Using Rates from PWA Order

		<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	15,000	36	362,300	\$95.28	\$ 3,430
Next	35,000		766,100	5.87	4,497
Over	50,000		3,423,300	5.03	17,219
Total		36	4,551,700		<u>\$ 25,146</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00308 DATED **FEB 12 2016**

The following water service rates are prescribed for the customers in the area served by Harrison County Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8-Inch x 3/4-Inch Meter

First	2,000 Gallons	\$ 18.89 Minimum Bill
Next	1,000 Gallons	7.13 Per 1,000 Gallons
Next	2,000 Gallons	6.95 Per 1,000 Gallons
Next	45,000 Gallons	6.41 Per 1,000 Gallons
Over	50,000 Gallons	5.49 Per 1,000 Gallons

3/4-Inch Meter

First	3,000 Gallons	\$ 26.02 Minimum Bill
Next	2,000 Gallons	6.95 Per 1,000 Gallons
Next	45,000 Gallons	6.41 Per 1,000 Gallons
Over	50,000 Gallons	5.49 Per 1,000 Gallons

1-Inch Meter

First	5,000 Gallons	\$ 39.92 Minimum Bill
Next	45,000 Gallons	6.41 Per 1,000 Gallons
Over	50,000 Gallons	5.49 Per 1,000 Gallons

1 1/2-Inch Meter

First	10,000 Gallons	\$ 71.96 Minimum Bill
Next	40,000 Gallons	6.41 Per 1,000 Gallons
Over	50,000 Gallons	5.49 Per 1,000 Gallons

2-Inch Meter

First	15,000 Gallons	\$103.99 Minimum Bill
Next	35,000 Gallons	6.41 Per 1,000 Gallons
Over	50,000 Gallons	5.49 Per 1,000 Gallons

Bulk Loading Station

\$ 7.73 Per 1,000 Gallons

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2015-00308 DATED **FEB 12 2016**

Modifications to the Service Lives
of Certain Assets of Harrison County Water Association

NARUC Account Number	Type of Asset	NARUC Average Service Life	Previously Assigned Service Life/Lives	PSC Approved Service Life/Lives
328	Other Pumping Plant	25	38, 20	25
331	Structures and Improvements	35-40	20	35
341	Structures and Improvements	35-40	30	35
342	Reservoirs and Tanks	30-60	20, 30	30
343	Transmission and Distribution Mains	50-75	30, 50, 63	50, 63
346	Meters	35-45	20, 35	35
391	Office Furniture and Equipment	20-25	23, 7, 5	23, 20
392	Transportation Equipment	7	7, 5	7
394	Tools, Shop & Garage Equipment	15-20	7, 13, 10	15
396	Power Operated Equipment	10-15	20, 30	15
397	Communications Equipment	10	20, 30, 10, 18, 7	10

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